

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58006

Skagit County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 31, 1997

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SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Skagit County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The County Should Only Use County Road Funds For Allowable Expenditures

During our review of Skagit County Road Fund, we noted the fund was being charged for a number of inappropriate expenditures. The majority of revenues to the County Road Fund come from the county's general tax levy for the County Road Fund and receipts from the state motor vehicles Fuel Fund.

The specific questionable allocations made to the County Road Fund and the basis for our conclusions are as follows:

- a. Resolution No. 16005, which outlines the 1995 indirect cost allocations, charged \$279,525 to the County Road Fund for expenditures related to the duties performed by the offices of elected officials. These allocations are as follows: \$62,341 for the Commissioner's Office, \$67,867 for the Assessor's Office, \$42,891 for the Treasurer's Office, \$91,279 for the Auditor's Office, and \$15,147 for the Prosecuting Attorney's Office.

It is the duty of these offices to perform their statutorily prescribed functions. The source of payment for the ordinary expenses of county government are payable from the Current Expense Fund unless other legislative provision is made.

- b. Resolutions No. 14908, 15386, and 15732 authorize Skagit County to award \$200,000 in Flood Control Grants to various municipalities in 1993, 1994, and 1995, respectively. The grants are awarded from the Current Expense Fund. However, these grant moneys are funded 50-50 between the Current Expense Fund and the County Road Fund.

RCW 85.08.370 permits the County Road Fund to reimburse diking, drainage, or sewerage improvement districts for improvements which benefit county roads. Based on this criteria we do not question the entire amount of the expenditure. However, in 1993 only \$163,013.37 of the grant moneys were appropriately authorized grant expenditures. Furthermore, in 1994 and 1995 just \$191,216.15 and \$171,451.23 of the grant moneys were appropriate and authorized expenditures. The County Road was never credited for its 50 percent of the \$74,319.25 in unused grant funds, resulting in an overcharge of \$37,159.63 being made to the County Road Fund.

- c. Resolution No. 16005 allocates \$48,496 which represents 25 percent of the Emergency Management Department's total expenditures including services for emergency preparedness, disaster response, hazardous material spill response and incident management. There is no express authority for costs associated with

emergency management to be paid by the County Road Fund, nor can such expenditures be implied as authorized.

- d. Resolution No. 16005 allocates \$109,981 which represents 50 percent of the total expenses related to mapping technicians who digitize, plot and electronically store county road and other geographical information. There is one staff person dedicated largely to maintaining road and assessor base maps. Another mapping employee is largely dedicated to planning department's needs. The mapping department allocates more than seven of the department's ten employees to a readdressing program for the county. As no clear benefit to the County Road Fund can be established for the readdressing program, this does not appear to be an allowable expenditure. As such, to allocate 50 percent of the mapping department's total expenses does not appear to be appropriate.

The Washington State Constitution Article II Section 40 specifies the purposes for which Highway Funds can be expended:

. . . Such highway purposes shall be construed to include the following:

- (a) The necessary operating, engineering and legal expenses connected with the administration of public highways, county roads and city streets;
- (b) The construction, reconstruction, maintenance, repair, and betterment of public highways, county roads, bridges and city streets: including the cost and expense of (1) acquisition of right-of-way, (2) installing, maintaining and operation traffic signs and signal lights, (3) policing by the state of public highways, (4) operation of movable span bridges, (5) operation of ferries which are part of any public highway, county road, or city street

Similarly, the *Revised Code of Washington* (RCW) specifies the purposes for which County Road Fund moneys can be expended. RCW 36.82.020 states:

Any funds accruing to and to be deposited in the County Road Fund arising from any levy in any road district shall be expended for proper county road purposes.

RCW 36.82.070 states:

Any money paid to any county from the Motor Vehicle Fund may be used for the construction, alteration, repair, improvement, or maintenance of county roads and bridges thereon and for wharves necessary for ferriage of motor vehicle traffic, and for ferries, and for the acquiring, operating, and maintaining of machinery, equipment, quarries, or pits for the extraction of materials, and for the cost of establishing county roads, acquiring rights of way therefor, and expenses for the operation of the county engineering office, and for any other proper county road purpose.

Skagit County's Notes to the Financial Statements states in Note B, Fund Accounting:

The General Fund is used to account for all activities of the general government not accounted for in some other fund.

RCW 43.09.210 prohibits one fund to benefit at the expense of another by stating:

All service rendered by, or property transferred from, one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value by the department, public improvement, undertaking, institution, or public service industry receiving the same, and no department, public improvement, institution, or public service industry shall benefit in any financial manner whatever by an appropriation or fund made for the support of another . . . All unexpended balances of appropriations shall be transferred to the fund from which appropriated, whenever the account with an appropriation is closed.

We are aware of specific instances in which a county is authorized to divert road levy moneys. These methods are referred to in the following statutes.

RCW 36.33.220 states:

The legislative authority of any county may budget, in accordance with the provisions of chapter 36.40 RCW, and expend any portion of the county road property tax revenues for any service to be provided in the unincorporated area of the county, notwithstanding any other provisions of law, including Chapter 36.82 RCW and RCW 84.52.050 and 84.52.043.

RCW 84.52.043 allows a tax shift between the Current Expense and County Road Funds to take place if, after the shift, the Current Expense Fund does not exceed \$2.475 per \$1,000 of assessed value. And the combined Current Expense and County Road Fund levy rates do not exceed \$4.05 per \$1,000 of assessed value. This statute applies to counties which have a Current Expense Fund levy rate in excess of \$1.80 per \$1,000. As Skagit County's levy rate is below \$1.80 per \$1,000, this option is not available to them at this time.

When inappropriate expenditures are made from the County Road Fund, taxpayers do not receive the benefit for which the taxes were originally collected. This diversion of funds results in the financial benefitting of one or more funds at the expense of another. In addition, based on RCW 36.78.090 and 47.08.100, inappropriate County Road Fund expenditures put the county at risk for the potential withholding of future motor vehicle funds. This would place the county in a severe economic disadvantage. These inappropriate expenditures appear to be the result of overall budget constraints and the county's liberal view of appropriate County Road Fund expenditures.

We recommend the county reevaluate all allocations made to the County Road Fund to determine if they are in compliance with the law and adequately supported. We also recommend any County Road Fund allocations which are determined to be unallowable for fiscal year 1996 be returned. We further recommend in the future, the board of commissioners take precautions to ensure only appropriate expenditures are made from the County Road Fund.

Auditee's Response

Skagit County appreciates the cooperative effort put forth by the State Auditor to discuss and resolve issues related to interfund charges for service. We look forward to resolving any remaining interfund charge issues to the satisfaction of the State Auditor and Skagit County.

2. Solid Waste Employees Used Public Assets For Private Gain

Our audit of Skagit County Solid Waste Transfer Station revealed that five transfer technicians gained at least \$5,472.13 from public assets during the period January 1995 through October, 1995. There were no federal funds involved in this case. The profit from public assets was made as described below.

Five transfer technicians removed items from the solid waste stream during regularly scheduled work hours, reduced them to obtain the recyclable materials in their off work hours, sold the recyclable materials to commercial vendors and retained the proceeds for their personal gain. These individuals took these actions without the knowledge or approval of upper management officials. There are no specific operating procedures or policies in place at the county that govern the removal or re-use or sale of materials left at the transfer station.

These employees were responsible for various aspects of operations at the transfer station during the period of this loss. When we discussed these irregularities with them on August 26 and September 13, 1996, the employees admitted selling county recyclable materials and splitting the proceeds among themselves.

In our opinion, these activities constitute misappropriation of public funds under the following authorities:

Article XI, Section 14, *Constitution of the State of Washington* prohibits:

The making of profit out of county, city, town, or other public money, or using the same for any purpose not authorized by law, by any officer having the possession or control thereof

RCW 36.58.060 states in part:

Solid waste disposal - Ownership of solid wastes - Responsibility for handling. Ownership of solid wastes shall be vested in the person or local jurisdiction managing disposal and/or resource recovery facilities upon the arrival of said solid wastes at said facility . . . the person or agency providing the collection service shall be responsible for the proper handling of the solid wastes from the point of collection to the disposal or recovery facility.

RCW 42.23.070 states in part:

Prohibited acts. (Effective January 1, 1995.) (1) No municipal officer may use his or her position to secure special privileges or exemptions for himself, herself, or others

We recommend Skagit County seek recovery of the misappropriated \$5,472.13 and related audit/investigation costs from the five transfer technicians and their insurance bonding company. We also recommend the Washington State Office of the Attorney General and Skagit County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for county employees is as follows:

Insurer:	Fidelity and Deposit Company of Maryland
Type of Policy:	Public Employee Dishonesty Coverage
Policy No.:	30586915
Dollar Amount:	\$250,000 (with \$1,000 deductible provision)
Policy Period:	August 1, 1994 until canceled

We also recommend Skagit County review overall operations at the Solid Waste Transfer Station, correct the weakness outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

Auditee's Response

Skagit County has implemented policies necessary to identify solid waste as public property and clarify procedures related to salvage and recycling of solid waste. Recovery of the proceeds gained by County employees from the questioned recycling activity as well as related audit costs has begun. Disciplinary action determined appropriate by the County has been meted out.

Auditor's Concluding Remarks

We would like to express our appreciation to Skagit County for its written response to our audit report. We appreciate the efforts of the board to comply with our recommendations. We will review the status of the county's compliance with our recommendations as part of the next regularly scheduled audit. We would like to take this opportunity to thank the staff throughout Skagit County for their assistance and cooperation during the audit process.

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the accompanying general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skagit County, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Skagit County.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 1996, on our consideration of the county's internal control structure and a report dated September 20, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Additional Information Regarding Audits Of Special Purpose Districts Included In
Trust And Agency Funds**

The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Northwest Air Pollution Authority
Port of Anacortes
Port of Anacortes Industrial Development Corporation
Port of Skagit County
Port of Skagit County Industrial Development Corporation
Skagit Council of Governments
Affiliated Health Services
Skagit Hospital District No. 1 (dba Skagit Valley Hospital)
Skagit Hospital District No. 2 (dba Island Hospital)
Skagit Hospital District No. 304 (dba United General Hospital)
Skagit Dike District No. 12
Skagit Consolidated Dike District No. 22
Skagit Fire Protection District No. 8
Skagit Transit Systems
Fidalgo Parks and Recreation District

Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts
Public Hospital Districts
Irrigation Districts
Water Districts
Sewer Districts
Water/Sewer Districts
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Skagit Cemetery District No. 1
Skagit Cemetery District No. 2
Skagit Cemetery District No. 5
Skagit Dike District No. 1

Skagit Dike District No. 3
Skagit Dike District No. 8
Skagit Dike District No. 17
Skagit Dike District No. 25
Skagit Drainage District No. 14
Skagit Drainage District No. 15
Skagit Drainage District No. 16
Skagit Drainage District No. 17
Skagit Drainage District No. 19
Skagit Drainage District No. 22
Skagit Sewer District No. 1
Skagit Sewer District No. 2
Skagit Water District No. 1
Skagit Rural Library District - LaConner
Skagit Fire Protection District No. 1
Skagit Fire Protection District No. 2
Skagit Fire Protection District No. 3
Skagit Fire Protection District No. 4
Skagit Fire Protection District No. 5
Skagit Fire Protection District No. 6
Skagit Fire Protection District No. 7
Skagit Fire Protection District No. 9
Skagit Fire Protection District No. 10
Skagit Fire Protection District No. 11
Skagit Fire Protection District No. 12
Skagit Fire Protection District No. 13
Skagit Fire Protection District No. 14
Skagit Fire Protection District No. 15
Skagit Fire Protection District No. 17
Skagit Fire Protection District No. 19

Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

Skagit Cemetery District No. 3
Skagit Cemetery District No. 4
Skagit Dike District No. 4
Skagit Dike District No. 5
Skagit Dike District No. 9
Skagit Dike District No. 19

Skagit Dike District No. 20
Skagit Drainage District No. 18
Skagit Drainage District No. 21
Skagit Drainage District No. 25
Skagit Drainage Improvement District No. 8
Skagit Drainage Improvement District No. 20
Skagit Fire Protection District No. 16
Skagit Fire Protection District No. 18

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Skagit County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996.

We also have audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to vouchers, right-of-way, extensions, and sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- and amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Skagit County complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the county provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Skagit County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 20, 1996

SKAGIT COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Commissioners
Skagit County
Mount Vernon, Washington

We have audited the general-purpose financial statements of Skagit County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 20, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated September 20, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on the compliance with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and internal control structure procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated September 20, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Purchasing, receiving, and accounts payable
 - Payroll
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Inventory control
 - Property, plant, and equipment
 - General ledger
- **Specific Requirements**
 - Eligibility

During the fiscal year ended December 31, 1995, the county expended 56.72 percent of its total federal financial assistance under major federal financial assistance programs and the following nonmajor federal financial assistance program: Child Support Enforcement (Title IV-D) - (CFDA 93.563)

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to the county's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, and the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 20, 1996